

Opening Statement
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"GSE Oversight"

Mr. Chairman, thank you for holding this hearing on GSE Oversight. I look forward to hearing the testimony from Secretary Snow and Secretary Martinez.

Government Sponsored Enterprises (GSEs) focused on home ownership have been in existence since 1932. And, since that time, GSEs have played an important role in developing the secondary mortgage market in the United States. Fannie Mae and Freddie Mac buy mortgages from originators in order to provide liquidity in the market, and the Federal Home Loan Bank System provides advances to banks and thrifts so that those organizations can offer mortgage products to their customers.

Like the rest of corporate America, over time the GSEs have developed comprehensive business models to achieve their mission and to get results for their stakeholders. As a result, the housing GSEs have become three of the most sophisticated financial institutions in the world. In total, the three GSEs have over \$2 trillion in debt, and a derivative portfolio with a notional amount totaling over \$1.9 trillion. Due to their evolving business models, the three housing GSEs now must protect their balance sheets, not only from credit risk, but also from interest rate risk. With these facts in mind, I think that it is crucial that these organizations are subject to competent regulation.

I have authored legislation that would create an independent regulator in the Treasury Department with greater enforcement powers to oversee the three GSEs. My proposal is important, not only because it creates a new agency in the Treasury, but also because it includes regulation of all three housing GSEs and it mandates the new agency director to work with other financial institution regulators through the Federal Financial Institutions Examination Council.

I offered my legislation because this country needs a world-class regulator of the housing finance sector. To that end, I believe the Treasury has expertise in constructing and monitoring financial institution regulatory bodies. Experts believe that all three GSEs need to be part of the equation in order to achieve effective safety and soundness oversight. Since Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are the largest derivatives players in the world, the new regulator needs to see the whole market to ensure the best practices of risk management.

In addition, bond market experts have told me that if Fannie Mae and Freddie Mac receive a new regulator under Treasury -- and if the Federal Home Loan Banks remain under the Finance Board -- then on a relative basis Fannie Mae and Freddie Mac would have a competitive advantage in the bond market because investors have more confidence in Treasury regulation. This could result in a higher cost of capital for Federal Home

Loan Banks. Congress should not enact legislation that favors one group of GSEs over another.

I know some of my colleagues are concerned that -- while right on the merits -- inclusion of the Federal Home Loan Banks could derail regulatory restructuring for Fannie Mae and Freddie Mac. Others have suggested that we should not include the Federal Home Loan Banks in any legislative effort because it is politically difficult. I disagree with both of these views. Over the past two months I have sensed momentum building for my proposal, as some of the most significant players in the FHLB System have endorsed my concept. We have an historic opportunity to create the optimal regulatory framework to protect the financial system and the taxpayer. This is the time for us to show leadership.